Making End$ Meet 2009 Mutual Fund Report & Annual Newsletter

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Making End$ Meet 2009 Mutual Fund Report & Annual Newsletter

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Dear client, colleague, and/or friend, Spring 2009

Since Return on Investment (ROI) is one of the most consequential variables in an investor's economy, every spring I skim the cream off the mutual fund market and share the results in an annual report. This is the fourteenth.

Its purpose is to help you prosper by defining excellence. However, beware that investing in the funds on this report right away can result in “performance chasing.” Nonetheless, with such excellent track records, I reckon they're noteworthy for future reference, at least as historic examples of what's possible. Past performance is no guarantee of future results; read prospecti and annual reports, and consult your financial advisor before investing.

Since we're in the first significant recession in the past fourteen years, this report will be different than the others. Over a period of about a year and a half, the Dow Jones Industrial Average (DJIA) fell from a high of 14,093 on 10/12/07 to a low of 6,627 on 03/06/09 – a 53% decline. As of 04/29/09, it had rallied to 8,186.
(Experts disagree about meaning of this rally, and about prospects for the near future. Martin Weiss warns there were nine rallies like this during the great stock market crash of 1929. He calls them “sucker rallies” or “bear bounces,” and warns that the worst is yet to come. Others, like Federal Reserve Chairman Ben Bernanke, Money Talk host Bob Brinker, and Portland macroeconomist Bill Conerly are more optimistic. They anticipate improvement in late 2009 and early 2010. I will offer my own view below.)

Regardless of future prognostications, this past decline reduced the top 200 average annual return criteria to the following (in bold) as of 04/30/09. (To put top returns into perspective, I am comparing them with the averages for the previous seven years, all funds in 2009, and the S&P 500 Index in 2009):

Average Annual ROI Criteria, Top Performing Mutual Funds

Time Frame	***2002***	***2003***	***2004***	***2005***	***2006***	***2007***	***2008***	***2009***	***All Funds 2009 Avg.***	***S&P 500 2009 Avg.***
1 year	22.0%	14.7%	84.5%	23.8%	54.0%	31.8%	27.4%	**7.5%**	-27.8%	-37.0%
3 years	20.0%	13.7%	22.1%	19.8%	47.0%	28.9%	28.5%	**6.7%**	-7.7%	-12.7%
5 years	17.0%	7.8%	19.0%	17.8%	26.0%	25.2%	33.3%	**9.4%**	-0.3%	-4.7%
10 years	14.0%	10.0%	13.2	13.9%	15.3%	14.7%	14.1%	**9.8%**	1.6%	-4.2%

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In other words, from May 2008 to April 2009, of the 25,471 funds Morningstar now tracks, 200 attained the above returns or higher when sorted one time frame at a time.

However, unlike past years, this year no funds achieved the above criteria simultaneously. Funds with favorable longer-term averages declined in the short-term, following the markets. Funds with favorable short-term averages were inverse, contrarian, or bear market funds with unfavorable long-term averages. (See page 8 for more information about them.)

Consequently, I am not arranging results into the four customary groups (A-D) appearing on previous reports. All of the funds on this year's report fall into the fourth “D - Honorable Mention” category. I have, however, divided the Honorable Mentions into two groups: those with values that did not decline with the market (sustaining long- and short-term averages better than four percent – see the pdf report accompanying this, “Consistent Gainers 2009.pdf”), and those that did decline but still sustained excellent long-term average performance, greater than ten percent (see page 4).

Notice how in the report on page 4 I have included in the far right column a Premium (Discount) computation which relates the fund's one-year price change with its one-year ROI. If the price decreased more than the ROI did, I consider that we may be looking at a bargain situation, and vice-versa. Of course, deeper study (analysis of prospecti and reports) is necessary to confirm this possibility. For assistance with such analysis, please contact me or consult your financial advisor.

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Top Performing Mutual Funds
10-Year Average Annual Returns > 10%
Sorted by 10-Year Return
Data courtesy of Morningstar.com, 04/30/09

				Return on Investment						Share Price			
Ticker	Name	Class	Risk	1	3	5	10	Minimum	Began	4/09	3/08	% Change	Premium (Discount)
LETRX.lw	ING Russia A load waived	EurStock	High	-60.0	-16.0	6.6	23.7	$1,000	07/03/96	$18.37	$64.28	-71.4%	-11.4%
USAGX	USAA Precious Metals & Minrl	SpcPrcM	Med-Hi	-22.3	1.4	18.3	18.8	$3,000	08/15/84	$22.37	$35.94	-37.8%	-15.5%
SGGDX.lw	First Eagle Gold lw	SpcPrcM	Low	-13.0	0.8	14.2	17.7	$2,500	08/31/93	$19.80	$24.92	-20.5%	-7.5%
EKWAX.lw	Evergreen Precious Metals	SpcPrcM	Med	-22.6	-1.4	16.5	17.6	$1,000	01/20/98	$48.84	$69.58	-29.8%	-7.2%
SSGRX	Black Rock Global Rsrces A	SpcNatR	High	-54.2	-15.1	9.5	17.3	$1,000	03/02/90	$20.37	$59.59	-65.8%	-11.6%
ICENX	ICON Energy	SpcNatR	Med-Lo	-36.9	-6.9	11.8	16.3	$1,000	11/05/97	$13.51	$31.41	-57.0%	-20.1%
CGMFX	CGM Focus	LgBlend	High	-54.1	-6.4	8.1	16.3	$2,500	09/03/97	$24.78	$49.39	-49.8%	4.3%
PGNAX	Jennison Natural Resources A	SpcNatR	Med-Hi	-47.8	-7.1	13.8	15.6	$1,000	01/22/90	$31.27	$59.83	-47.7%	0.1%
ODMAX.lw	Oppenheimer Dvlpg Mkts A	Div Emrg Mkt	Med-Lo	-37.3	-4.4	14.1	15.5	$1,000	11/18/96	$18.63	$45.08	-58.7%	-21.4%
SCGDX	DWS Gold & Precious Metals S	SpcPrcM	Med	-32.0	-6.4	8.7	14.7	$2,500	09/02/88	$13.81	$23.35	-40.9%	-8.9%
MDLTX.lw	Black Rock Latin America A Load Waived	LatinAmStck	High	-47.7	-2.0	22.5	14.7	$1,000	09/27/91	$36.70	$64.86	-43.4%	4.3%
PRLAX	T. Rowe Price Latin America	LatinAmStck	Med	-48.7	-2.0	23.1	14.6	$2,500	12/29/93	$27.75	$52.82	-47.5%	1.2%
TMRFX.lw	Third Millennium Russia Load Waived	EurStock	High	-67.4	-24.5	-2.2	14.5	$1,000	10/01/98	$11.58	$57.35	-79.8%	-12.4%
CGMRX	CGM Real Estate	SpcReal	High	-54.4	-10.1	7.7	14.2	$2,500	05/13/94	$14.56	$31.12	-53.2%	1.2%
INIVX.lw	Van Eck Intl Investors Gold	SpcPrcM	Med-Hi	-26.1	-2.1	17.1	14.0	$1,000		$12.30	$18.69	-34.2%	-8.1%
OCMGX	OCM Gold	SpcPrcM	Med	-20.6	-3.6	12.8	14.0	$1,000	02/05/88	$15.55	$21.66	-28.2%	-7.6%
VGPMX	Vanguard Precious Metals & Mining	SpcPrcM	Med-Lo	-55.4	-11.9	12.0	13.8	$10,000	05/23/84	$13.27	$34.63	-61.7%	-6.3%
DREGX	Driehaus Emerging Markets Growth	Div Emrg Mkt	Med	-45.1	-6.9	12.2	13.5	$10,000	12/31/97	$19.16	$38.75	-50.6%	-5.5%
USERX	U.S. Glb Inv Gold & Precious Metals	SpcPrcM	High	-26.1	-6.2	15.5	13.5	$5,000	07/01/74	$10.85	$16.95	-36.0%	-9.9%
MEDAX.lw	MFS Emer Mkts Debt A	EmMktsBnd	Med-Lo	-5.3	3.5	8.1	13.3	$1,000	03/17/98	$12.13	$13.75	-11.8%	-6.5%
VGENX	Vanguard Energy	SpcNatR	Med-Lo	-40.8	-5.8	13.3	13.0	$25,000	05/23/84	$47.76	$76.87	-37.9%	2.9%
EUROX	U.S. Global Inv E. Europe	EurStock	Med-Hi	-61.7	-22.0	2.7	12.4	$5,000	03/31/97	$5.69	$43.48	-86.9%	-25.2%
PAEMX.lw	PIMCO Emer Mkts Bond A	EmMktsBnd	Med	-10.5	1.8	6.7	12.2	$1,000	07/31/97	$8.91	$10.76	-17.2%	-6.7%
PSPFX	U.S. Global Inv. Global Res.	SpcNatR	Med-Hi	-56.7	-16.6	8.8	12.0	$5,000	07/28/83	$6.07	$16.93	-64.1%	-7.4%
BUFSX	Buffalo Small Cap	SmGrowth	Med	-17.4	-7.0	1.2	11.8		04/14/98	$18.19	$21.70	-16.2%	1.2%
GBEMX.lw	RS Emerging Markets A lw	Div Emrg Mkt	Med-Hi	-44.8	-5.7	12.3	11.7	$2,500	05/01/97	$14.52	$25.50	-43.1%	1.7%
FLATX	Fidelity Latin America	LatinAmStck	Med	-49.6	-4.1	20.4	11.7	$2,500	04/20/93	$32.75	$61.33	-46.6%	3.0%
WMICX	Wasatch Micro Cap	SmGrowth	Med	-39.4	-16.9	-4.6	11.6	$2,000	06/19/95	$3.04	$4.82	-36.9%	2.5%
SITEX	SEI Internatl Emer Mkts A	EmMktsBnd	Med-Hi	-11.9	1.0	7.3	11.6	$100,000	06/26/97	$8.45	$10.36	-18.4%	-6.5%
GHAAX	Van Eck Global Assets A	SpcNatR	Med	-43.0	-3.8	15.1	11.6	$1,000	11/07/94	$29.85	$49.16	-39.3%	3.7%
AEMGX	Acadian Emerging Markets	Div Emrg Mkt	High	-50.3	-9.4	11.3	11.6	$2,500	06/18/93	$11.14	$28.65	-61.1%	-10.8%
INPMX.lw	Riversource Precious Metals A	SpcPrcM	Med-Lo	-23.5	-5.1	10.5	11.4	$2,000	04/22/85	$8.43	$12.19	-30.8%	-7.3%
AGDAX.lw	AllianceBernstein High Income A	MultiSecBnd	High	-15.7	0.0	5.2	11.2	$2,500	02/25/94	$6.40	$8.29	-22.8%	-7.1%
DEMSX	DFA Emerging Markets Small Cap	Div Emrg Mkt	Med-Hi	-41.1	-5.8	10.0	10.7	$0	03/05/98	$11.70	$19.69	-40.6%	0.5%
SLAFX	DWS Latin America Equity S	LatinAmStck	Med	-52.3	-6.0	17.9	10.4	$2,500	12/08/92	$31.67	$70.24	-54.9%	-2.6%
UNWPX	USGI WrldPrecMineral	SpcPrcM	Med-Hi	-41.4	-13.5	10.0	10.2	$5,000	08/29/85	$10.87	$26.62	-59.2%	-17.8%
SNEMX	Bernstein Emrgng Mkts Value	Div Emrg Mkt	Med	-47.4	-9.6	10.2	10.1	$25,000	12/15/95	$18.53	$37.91	-51.1%	-3.7%

Morningstar classifies its funds into economic sectors. The thirty-seven funds in this year's report were spread across ten different sectors. Here's the breakdown in descending order:

Top 2009 Sectors , by Frequency

Sector	***Freq***
Precious Metals	10
Diversified Emerging Markets	6
Natural Resources	6
Latin American Stocks	4
European Stocks	3
Emerging Markets Bonds	3
Small Growth	2
Large Blend	1
Multi-Sector Bond	1
Real Estate	1
Total	**37**

In the chart on the next page ("Top Performing Mutual Fund Summary by Sector, 1996-2009"), these sector trends are also put into historic perspective. *Note that new sectors for 2009 are Multi-Sector Bond and Small Growth, which may indicate future trends*. The chart shows how categorically, the top five sectors most frequently represented by top-performing funds since 1996 have been, in this order:

Top Five Sectors 1996-2009, by Frequency

Natural Resources (34 occurrences),
Precious Metals (33),
Diverse Emerging Markets (25),
European Stocks (22), and
Large Growth (21).

For a complete ranking of all twenty-six sectors, as well as a better appreciation for their timing, please examine the following chart:

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Top Performing Mutual Fund Summary by Sector, 1996-2009

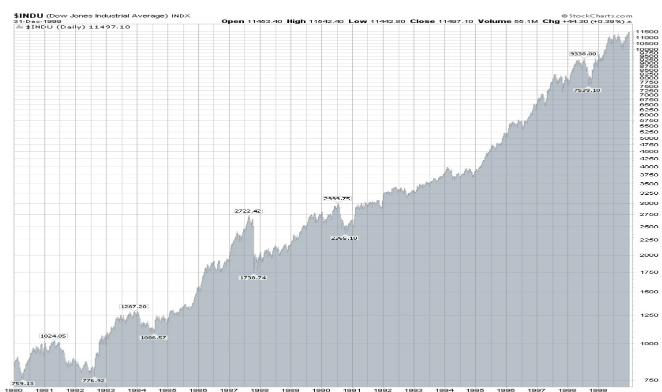
Minimum ROI Criteria:	**96**	**97**	**98**	**99**	**00**	**01**	**02**	**03**	**04**	**05**	**06**	**07**	**08**	**09**		
1 Yr	45.0	29.7	59.0	55.4	80.0	17.0	22.0	14.7	84.5	23.8	54.0	31.8	27.4	7.5		
3 Yr	22.5	22.8	34.7	31.3	40.0	16.0	20.0	13.7	22.1	19.8	47.0	28.9	28.5	6.7		
5 Yr	19.5	18.1	23.5	27.1	29.0	19.0	17.0	7.8	19.0	17.8	26.0	25.2	33.3	9.4		
10 Yr	14.7	14.0	19.8	19.2	20.0	16.0	14.0	10.0	13.2	13.9	15.3	14.7	14.1	9.8		
																Freq
Class	**96**	**97**	**98**	**99**	**00**	**01**	**02**	**03**	**04**	**05**	**06**	**07**	**08**	**09**	**Sum**	**Rank**
Blend:																
Large	3	2	11	1									1	1	19	6
Medium			4			1			1	1			1		8	15
Small			2			2	4		3				2		13	12
Growth:															0	
Large		1	10	9	1										21	5
Medium	2		3	2	4								2		13	13
Small	3		2		1	2	1		2					2	13	14
Specialized:															0	
Communications			2	2											4	19
Diverse Emerging Markets									3	3	6	1	6	6	25	3
Emerging Market Bonds		1					1	6					4	3	15	11
European Stocks							1		1	6	3	3	5	3	22	4
Foreign Stocks										4					4	20
Financial	1	4	10				1								16	10
Health Care	2		1			1									4	21
Japanese Stocks											1				1	24
Latin American Stocks										2	4	2	5	4	17	8
Long Gov't Bonds								2							2	22
Multi-Sector Bond														1	1	25
Natural Resources		1				1				10	6		10	6	34	1
Pacific Rim / Asia											3	1	1		5	18
Precious Metals	2							3	3		6		9	10	33	2
Real Estate									1	6		7	2	1	17	9
Technology	2	1		5	8				1				2		19	7
Utilities												2			2	23
Value:															0	
Large			2			4									6	17
Mid-Cap						1									1	26
Small			1				3		3				1		8	16
Totals	**15**	**10**	**48**	**19**	**14**	**12**	**11**	**11**	**18**	**32**	**29**	**16**	**51**	**37**	**323**	

Economic Lessons Learned 2008-2009

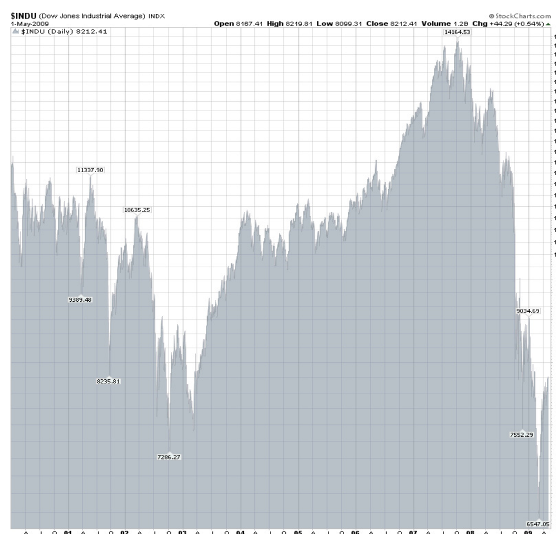
Lessons Learned About Investments

- **Precious Metals.** One theory about precious metals is that they're contrarian, or inverse: when economies fall, the value of precious metals should rise and vice-versa. The stock market decline of 2007-2009 has presented an opportunity to test that theory. Consider the following graphs:

Price of Gold 1973 – Present



DJIA 1980 – 2000



DJIA 2000 - Present

(Thanks to goldprice.org and stockcharts.com.)

Comparing the above graphs of Gold and the Dow Jones Industrial Average (DJIA), I conclude that the theory that precious metals correlate inversely with the economy is false. I see a positive overall correlation. Note that the price of gold fell in 2007 as the DJIA fell, and that both are rebounding.

Now as for whether precious metals retain more of their value during a downturn: that's another question. It would appear that they do. But is that because of their inherent, or perceived worth? I would submit that precious metals are a fear-based investment choice, and that their worth is more perceived than inherent. Since they have little if any practical utility, their perceived value depends mainly upon fear. (I'll offer more below about fear's significance.)

In conclusion, it still makes sense to include precious metals as a minority portion of one's portfolio as a hedge against panic, but don't expect them to move inversely with the rest of the portfolio.

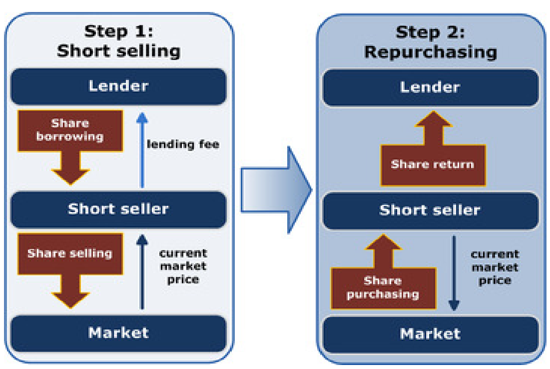
- **Inverse, Bear, & Commodity funds**, on the other hand, did correlate inversely with the rest of the market. While conventional investments were falling as much as 50%, these rose by the same percentages. The question I have been wondering is, how?

  It seems one practice at the core of this phenomenon is the practice of "**Selling Short**." Several times I have tried to understand this and have walked away feeling confused, but to write this report I tried again, and I think I understand it now, and will attempt a succinct explanation as follows.

  We all know the cliché "Buy low, sell high." ***Selling short is, "Sell high, buy low."***

  Sell what? How can one sell something one doesn't own? Answer: **borrow it**.

  In a nutshell, *Selling Short is selling a borrowed security while its price is high, anticipating a fall, then buying it after its price has fallen and returning the same number of shares to the lender, profiting from the change in price.*



Graphic courtesy of Wikipedia, http://en.wikipedia.org/wiki/Short_(finance)

Short-selling is controversial. From time to time it has been outlawed, blamed for exacerbating market volatility.

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Another practice at the core of the inverse investment phenomenon is the use of **Derivatives***: financial contracts or instruments, the values of which depend on the value of something else.* In his 2002 annual report, legendary investor Warren Buffet called them "Financial Weapons of Mass Destruction" because "Investors begin to look at the derivatives markets to make a decision to buy or sell securities and so what was originally meant to be a market to transfer risk now becomes a leading indicator" (http://en.wikipedia.org/wiki/Derivative_(finance)).

Yet another element at the core of the inverse investment phenomenon is the **"Commodity."** In late June 2008 as the stock market was falling rapidly, I ran a Morningstar fund report and captured a screen shot of funds that were thriving during the fall, with high double-digit one-year and year-to-date returns. Most of them had the word "Commodity" in their names. Fascinated, I dug deeper, to learn that the "commodities" inside these funds were not tangible agricultural or natural-resource related commodities as we usually understand them; they were IOU's that had been sliced, diced, packaged, and traded in such a way that made them so fungible as to have become "commoditized."

From all of these elements – short selling, derivatives, and "commodities" - money can be made. But what they all seem to share in common is profiting from others' misfortune. For this reason, I have been personally disinclined to pursue them. Yet they're worth understanding. Personally, I am more interested in behaviors that make the economy – large and small, macro and micro – sustainably better for everyone.

But it doesn't have to be either-or. One notable example is George Soros who, according to the above Wikipedia article on short selling, enriched himself in 1992 by short-selling $10B worth of British pounds and has used the money to finance his philanthropy. Regardless how vociferously he and conservatives may despise one another, the fact remains that he has been very generous with his money toward the causes in which he believes, and the means of his generosity was short-selling. (Of course this brings us to the philosophical question, "Do the ends justify the means?" And some would challenge whether Soros' ends justify anything. But such questions are beyond the scope of this report.)

A moderate approach toward dealing with declining markets, instead of profiting from others' misfortunes at one extreme, or holding until the bitter end at the other, would be ***to know when prices have peaked***, sell, and park funds in safe, prudently managed vehicles like a savings account at a well-capitalized bank or credit union until markets recover.

Of course this begs the question, what would the bank or credit union do with your money during that time? One thing is for sure: they wouldn't store it in their vaults. They'd lend it to somebody, and who knows what that somebody, or somebodies, would do with it?

Another question it begs is, how can we know when prices have peaked? Clearly there's a lot of room for improvement in the way we answer that question! In hindsight, we now know the answer: October 2007.

(For years, I watched the discrepancy between home prices and incomes grow and wondered how much longer the trend could continue before something gave. I suppose there ought to be an obvious ratio between annual income and home price that could serve as a reliable indicator.

But both numbers are moving targets; interest rates and loan terms pertain; and all the players in the real estate game have an incentive to continue the game instead of calling for a time out before a lot of people get burned.

Of course, the entitlement mentality that has developed in our culture and resulted in the delusion that everyone is entitled to have a house regardless of their wherewithal to afford it further discourages such a simple and straightforward analysis.

But the analysis can, and ought to be, made nonetheless because it could help answer the question. Perhaps I'll monitor these numbers more closely and share findings in future reports. [When I do a Google search on “Ratio of incomes to home prices” I get four hits. Count 'em: four. “Ratio of mortgage payments to incomes” yields a whopping two. Hmmm, I think I see a niche, insofar as nobody appears to be dealing with these questions.])

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Lessons Learned About Earnways: on skills and caring.

I learned the term "Earnway" originally from J. Conrad Levinson, in his book 555 Ways to Earn Extra Money (1992). Before everybody was online, I used his book as a way to help stimulate the creative juices of clients needing to increase their incomes. I kept several copies on hand and lent them to whoever seemed to need them. Now I use Internet resources.

In April I read Laurel Langemeier's book The Millionaire Maker's Guide to Creating a Cash Machine for Life (2007). Laurel is a disciple of Robert Kiyosaki (author of Rich Dad, Poor Dad: What the Rich Teach Their Kids About Money--That the Poor and Middle Class Do Not!! [2000]), and has become the financial expert on the Dr. Phil show. Now, instead of loaning out copies of Levinson's book, I send people this link at Laurel's web site:

http://www.liveoutloud.com/cmideas

She claims she can make anyone who's really willing into a millionaire in 3-5 years, and sells seminars to help them do it. Unlike Kiyosaki and so many others, the basis of her model is not real estate; it's ***skill***.   Weary of all the real estate hype and where it has ultimately led us, I have found her approach hopeful and refreshing.

She employs a seven-step, seven-week action plan for creating a cash machine: (1) Discover the skills you already have; (2) Develop a business idea; (3) Find a model for your idea – someone who is already doing it; (4) Test sales potential through revenue modeling; (5) Design the cash machine plan; (6) Build a team, and (7) Develop a marketing & sales strategy.

Helpful pointers I gained from the book included:

- "Strengthen your strengths & hire your weaknesses." This affirmed Timothy Ferriss' point in 4-Hour Workweek to "focus on better use of your best weapons" instead of constant repair. (More about Ferriss below.)

- The importance of team building. "Lone Rangers" seldom prosper. They get bogged down in minutiae. She especially emphasizes the exorbitant opportunity cost of doing one's own housework, yard work, and laundry. One can liberate the time spent doing all that for as little as $400/mo.

- The importance of writing down action items: "It's important to write down exactly what must happen . . . the Cash Machine requires that you track your numbers, dates, and tasks meticulously. This keeping track helps you to keep control of what you are doing and when it will happen . . . I can't overstate how helpful writing down action items is for accomplishing tasks and eventually reaching your goals . . . . Though it may seem tedious, it's an important part of the process" (Chapter 3).

- Field trips are her favorite ways to brainstorm business ideas.

- The importance of firing problematic employees abruptly.   One bad apple can spoil the whole barrel, and delaying or prolonging the process just makes things worse. Prompt firing is actually an act of kindness because it gives the employee unmistakably clear feedback that can help them improve at the next job. Conversely, mollycoddling problematic employees is actually unkind, because it misleads them into believing they're better than they really are. (More about this below in Dianna Booher's The Voice of Authority: 10 Communication Strategies Every Leader Needs to Know.)

- The STP approach toward marketing: Segment, Target, & Position.
- “Starting a company just to sell it is a big American myth” (Chapter 9).

I've seen a lot of ways to make a dollar, including many multi-level marketing plans and real estate techniques, but in my heart I've always remained convinced that the best way to make not just a living, but to make a life, is to earn one's living doing that about which one truly cares; and like filings around a magnet, I have found that skills collect around caring in the same way.

Now Laurel has come along and shown that it is possible to take the skills we already have – skills which have collected around the things we care about - and, in three to five years (at least for some of us), leverage those skills to create millionaires. That's pretty vindicating, and pretty cool, too.

In this economy, many people face the challenge of developing new earnways. If this describes you or someone you know, please contact me. I'm at your service. I can help turn skills into cash.

Lessons Learned About Marketing: on high touch

In 1982, John Naisbitt wrote Megatrends: Ten New Directions Transforming Our Lives.   A theme that ran throughout his discussion of all ten trends was the distinction between "high tech" and "high touch." He asserted that the higher-tech society becomes, the more important high-touch experiences will be to maintain balance. The ten trends were:

John Naisbitt's Ten Megatrends (1982)

Trend #	*From*	*To*
1	Industry	Information
2	Technology push	Technology pull
3	National	Global
4	Short term	Long term
5	Centralization	Decentralization
6	Institutional help	Self-help
7	Representation	Participation
8	Hierarchies	Networks
9	Northeast	Southwest
10	Either/or	Both/and

The theme prevailing throughout the lessons I learned about marketing over the past year was the same "high touch" theme Naisbitt articulated 27 years ago. For example:

- From Jason Gaylord of Local Loop (www.localloop.om), an Edmonds-based marketing consultant, I learned that conventional advertising is broken. We ignore it, resent it, and tune it out. The click-through rates on banner and pop-up ads on the Internet prove they don't work. We've been so besieged by meaningless, platitudinous marketing messages that we've become cynical. We believe that, to make a quick buck, most of the time salespeople who neither know us nor care about us tell us lies. In my observation, we're so truth-starved that many of us have become closet nihilists, doubting whether truth exists at all. (The solution Jason offers is to shift from a "pay to play" to "perform to play" paradigm in which, through independent third party customer satisfaction research, businesses distinguish themselves not by their advertising spending or alphabetical arrangement in the phone book, but by their customer satisfaction ratings.) We yearn for a higher-touch experience, to be told the truth by people who understand and care. (For that to be possible, I would offer that those of us who have become closet nihilists must first re-discover that "the truth" still exists!)

- From Steve Gaines, a radio advertising guy used by the Cascade Radio Group to promote radio advertising during a recession, I learned that "trigger events" (what one might also call "moments of truth") motivate people to buy, even in a recession, like a flooding toilet motivates people to call a plumber or a washboard gravel driveway motivates people to call a paving company.   He also affirmed that hollow claims and superlatives like "best" don't work. People want specificity and proof. They want truth.

- From Google Zeitgeist, I have learned what has been "Top of Mind" over the past few years. Since 2006, among other things, Google has tracked, in ranked order, the "who", "what", and "how" questions people have been asking. Before 2006 they report data in a more varied format . . . but if they had consistently tracked the "who" "what" and "how" questions, judging from the data, the answer would have usually been Britney Spears. See for yourself at http://www.google.com/intl/en/press/zeitgeist/index.html. Examine the findings for 2002-2005. You'll see Britney's name appear at the top of many lists. Accordingly, I have taken the liberty of filling in her name for those years, even though Google did not track the data as such:

Google Zeitgeist "Top of Mind" Findings

Year	***Who is . . .***	***What is . . .***	***How to . . .***
2008	Obama	Love	Draw
2007	God	Love	Kiss
2006	Borat	Hezbollah	Refinance
2005	Britney Spears	Britney Spears	Britney Spears
2004	Britney Spears	Britney Spears	Britney Spears
2003	Britney Spears	Britney Spears	Britney Spears
2002	Britney Spears	Britney Spears	Britney Spears

This is telling. It has marketing and economic implications, for it shows where people's interests lie. In the conclusion of his 2005 book The World Is Flat: A Brief History of the Twenty-first Century, as a warning Thomas Friedman quoted Yahoo co-founder Jerry Yang: "In China today, Bill Gates is [a pop idol like] Britney Spears. In America today, Britney Spears is Britney Spears – and that is our problem."

But what is the pattern here? It looks to me like we want love, but we're not sure what it is. Is it a kiss? Is it God? Is it President Obama? Is it Britney?

Regardless, the compelling conclusion for me, as I examine this data, is that love-hunger is at the root of most of our economic decisions and transactions, whether they're housing, food, transportation, communication, recreation, gifts, financing for all of the above, or what have you.

(I wonder what would happen economically if, as a society, we understood love more clearly than we do. Perhaps the answer to that question would have significant investing consequences. It's a question I plan to consider further, and I invite you to consider it with me.)

- From Chip Conley, author of Peak: How Great Companies Get Their Mojo from Maslow (2007), I learned how mastering "The Art of the Pleasant Surprise" can scratch customers' "high touch" itch so well that it makes them "evangelists" for your business. Basically, Chip delivers to his customers, employees, and investors the peak experience of feeling both loving, and loved.

- From John Assaraf, co-author of The Answer: Grow Any Business, Achieve Financial Freedom, and Live an Extraordinary Life (2008), I re-visited and studied in greater detail the "Law of Attraction" and the raw power of thought: how thoughts create things. One need not be particularly spiritual to realize that the building in which you're reading this report began as an architect's idea. It's a very practical reality. But Assaraf does a great job of unpacking it and demonstrating in very compelling ways why we should be very careful about managing our thoughts, for today's thoughts become tomorrow's realities, for better or worse. We are more creative than we realize. And his co-author Murray Smith affirms Langemeier's message about segmenting, targeting, and positioning (STP).

- From Timothy Ferriss, author of The 4-Hour Workweek: Escape 9-5, Live Anywhere, and Join the New Rich (2007), I learned of the high-touch poem at the end of his book, "Slow Dance":

"Slow Dance" by David L. Weatherford

Have you ever watched kids on a merry-go-round
Or listened to the rain slapping on the ground?
Ever followed a butterfly's erratic flight
Or gazed at the sun into the fading night?

You better slow down
Don't dance so fast
Time is short
The music won't last

Do you run through each day on the fly
When you ask "How are you?" do you hear the reply?
When the day is done, do you lie in your bed
With the next hundred chores running through your head?

You'd better slow down
Don't dance so fast
Time is short

The music won't last

Ever told your child,
We'll do it tomorrow
And in your haste, not see his sorrow?

Ever lost touch,
Let a good friendship die
'Cause you never had time to call and say "Hi"?

You'd better slow down
Don't dance so fast
Time is short
The music won't last

When you run so fast to get somewhere
You miss half the fun of getting there.
When you worry and hurry through your day,
It is like an unopened gift....
Thrown away...

Life is not a race.
Do take it slower
Hear the music
Before the song is over.

Doesn't this poem seem kind of sappy and sentimental, coming from a high-powered rich business guy? But there it is: his core motive for figuring out a way to work only four hours a week. He wanted to create time for love.

But as far as hard marketing skills and techniques are concerned, I learned a lot from Ferriss, like how the highest profit margins (800% - 1,000%) are in narrow, highly specialized niches; how to work with magazine advertising; about the important difference between asking people if they would buy, and asking them to buy; and about smart ways to test demand, like using Google Adwords.

- From Dianna Booher, author of The Voice of Authority: 10 Communication Strategies Every Leader Needs to Know (2007), I learned that we are so truth-starved that Ms. Booher, a high-powered Fortune 50 consultant, found it necessary (and profitable) to inform us that truth still exists! And as far as the high-touch theme is concerned, I learned that the single emotion that accounts for most vague communication is fear, and that, regardless how many other high-tech communication alternatives may be at our disposal, face-to-face communication is indispensable, especially when relaying bad news or building rapport.

- From Patricia Evans in her book Controlling People: How to Recognize, Understand, and Deal with People Who Try to Control You (2003), I learned of the paradox that individuality is necessary to form authentic connections. Controlling people are "beside themselves." They're out of touch with themselves; they don't know who they really are and look outside of themselves for definition and validation. Her message is that authentic connection happens from the inside out, and my observation and experience have been that this is so, both in personal and business relationships. 0 + 0 = 0. To achieve authentic, high-touch connections, we must first become greater than zero, defining ourselves by going within. Only then are we in a position to offer something with which to connect.

- From David Allen in his book Getting Things Done: The Art of Stress-Free Productivity (2001), I learned that higher-touch relationships become possible as we increase our trustworthiness by becoming more organized and effective. People notice that we don't forget or lose things; we remember, we follow through, we tell the truth; our yes means yes, and our no means no. Indeed, our "no's" give our "yes's" meaning.

- From Malcom Gladwell's The Tipping Point: How Little Things Can Make a Big Difference (2000), I learned about some of the high-touch elements that account for "viral" marketing like a "sticky" message; key people like connectors, mavens, and salespeople; and I learned to stop apologizing for devoting attention to detail by maligning such devotion as "OCD." After all, big things are just the sum of a lot of little things, and the little things are what create high-touch experiences.

- In The Ultimate Marketing Plan: Find Your Hook. Communicate Your Message. Make Your Mark (2006), Dan Kennedy affirmed what others have been saying about having a Unique Selling Proposition (USP), and making customers feel important, appreciated, and respected. (He offers a unique worksheet for developing a marketing plan at www.theultimatemarketingplan.com.)

- From clients who own a happening E-Bay business, I learned that effective marketing campaigns – the ones that go "viral" - are distinctively unpretentious and sincere. They're high-touch and truth-laden, making extensive use of video. After running an 80/20 Pareto Analysis on their customers, we realized that their key customers – the 20% who accounted for 80% of their revenues – were key because of the high-touch attention my clients gave them. (From these same clients I also learned about some great web sites for gauging demand like shopping.com, hammertap.com, E-Bay Pulse, whatdoIsell.com, terapeak.com, and quantabasics.com.)

- From the founders of liquidplanner.com (whom I met at a recent luncheon of the local Technology Alliance Group), a web-based project management application distinguished by its ability to accommodate estimated completion date ranges and prioritize tasks, I learned that even sophisticated Silicon Valley types who are automation experts have been surprised to learn that they must adopt a much higher-touch way of promoting and selling their product than they originally thought by developing an agent force to teach prospective customers how to use their product in the same way that the life insurance industry developed an agent force to educate the public about the importance of life insurance.

- With another client who went through a management change, I witnessed an amazing shift from loss to profit, *during the recession*, because the new management established a much closer connection between the business' financial statements and its people. With a complete feedback loop in place, the team took swift, decisive action, saving the business. They also slashed marketing expenses while nearly doubling sales by tightening relationships with their customers.

- From my own experience with clients, research of software, and interviews with developers, I have learned that that the features, benefits, and costs of Customer Relationship Management (CRM) software continue to vary wildly. Costs range from free to tens of thousands of dollars, and features & benefits are not necessarily commensurate.

  My favorite application, which I use to run my own business, continues to be freecrm.com. It really is free, but $15 per user/month eliminates banner ads and adds advanced features like data synchronization, enhanced reporting, and advanced marketing campaign capability. Contact me for help learning to use it. I find it's a key tool for creating, maintaining, and growing high-touch customer relationships.

Conclusion about high-touch marketing. Since human beings are fundamentally social animals, no matter how automated or technologically sophisticated we become, high-touch marketing is evidently here to stay. I hope the above-described resources help you improve marketing as they have helped me. If you would like further marketing help, I am at your service.

New Associations

In January of 2009 I joined the local Chamber of Commerce (www.bellingham.com). I have enjoyed its monthly networking breakfasts which are sort of like "power dating" for businesses. In a half hour, we all get to give a one-minute sales pitch to about twenty-five people, hear theirs, and get their contact information for follow-up.

We also build community and make friends. It's a much more relaxed and humane group than I had assumed. Members are optimistic, goal-oriented, energetic, friendly, witty, and as formal or informal as they want to be. (If you decide to join the Chamber on my encouragement, please be sure to tell 'em I sent ya. They're doing a promotional deal.)

Either through or along with the Chamber I've met other groups and individuals too, like:

- Whatcom Young Professionals or WYPs (www.bellinghamwyps.com);
- A business book study group at Village Books (www.villagebooks.com) facilitated by local executive coach Janet Ott (www.janetott.com) (thanks again, Janet);
- Excellence Northwest (www.excellencenw.org), a nonprofit organization through which Janet and others offer several helpful courses including "Reset for Excellence." Through the Chamber, I gained admission to the ReSet course and learned a lot about how greater emotional intelligence can create both personal and business advantages.
- The Technology Alliance Group (www.tagnw.org),
- LinuxFest Northwest (http://linuxfestnorthwest.org) whom I have affectionately dubbed "Techno Boy Scouts" for their refusal to accept payment for doing good deeds like creating Google and other open-source software that often works better than the proprietary stuff;
- The local Economic Development Council (www.bwedc.org);
- The local Center for Economic Vitality, formerly known as the Small Business Development Center (www.cbe.wwu.edu/sbdc),
- The local chapter of Junior Achievement, and
- My alma mater Fairhaven Middle School where I'm volunteering teaching Music, Grammar, and Economics.

New Services

In April I updated the web site (www.makinendsmeet.com) with a fresher, brighter, more cheerful look and feel, and more focused sub-pages under the Services area. In addition to the services I've always offered, I have added pages describing two services especially worthy of note in the current economic climate: the Pareto Analysis, and the SWOT Analysis.

Pareto Analysis. Vilfredo Pareto was an Italian Economist who noticed that, among other things, a minority of the pea crop in his garden produced the majority of the peas. A Pareto Analysis (also known as 80/20 Analysis) identifies the "Critical Few" people and/or things that are the most productive. For example, 80% of sales are closed by 20% of salespeople on the sixth callback. 80% of sales also come from 20% of your customers, who buy 20% of your key products or services. 80% of your own personal productivity occurs 20% of the time. 80% of bank deposits are owned by 20% of depositors, and so on.

Identifying the Critical Few helps notice, promote, reward, and multiply excellence.

SWOT Analysis. A SWOT Analysis identifies Strengths, Weaknesses, Opportunities, and Threats. It is a great way for individuals and teams to notice what is happening, good and bad, both within and beyond one's control. Regular SWOT Analysis can help:

- Leverage strengths
- Correct weaknesses
- Notice and benefit from opportunities that might otherwise go unrecognized
- Mitigate or preempt threats
- Focus attention
- Solve small problems before they become large ones
- Notice and benefit from relationships between, for example, strengths and opportunities
- Notice that sometimes, like a coin, weaknesses and threats might have positive flip-sides that, if carefully noticed and managed, can produce positive results.

SWOT Analysis is especially helpful during times of uncertainty or transition. Regular SWOT analysis under any circumstance encourages health and promotes excellence.

Social Networking. I've begun studying various ways to use social networking tools like Twitter, Facebook, and LinkedIn for marketing and sales purposes. I'll be publishing findings as I learn more about best practices, so stay tuned.

Concluding Thoughts on Fear and Courage

As an Eagle Scout I learned, among other things, how to be "comfortably homeless." I experienced some of my happiest moments outdoors, living in a tent or sleeping under the stars.

Of course I would never wish homelessness on anyone; it's one thing to go on a camping vacation, and quite another to have no other choice. But I've come to realize that learning to be "comfortably homeless" did something to me psychologically. It liberated me from the fear of homelessness, and this freedom from fear gave me the ability to respond to some pretty frightening circumstances, to avoid the reptilian fight-or-flight state and stay loose, relaxed, curious, and creative. When there were times in my life when I was not sure whether I would be able to afford to keep a roof over my head, subconsciously there was a little voice that said, "Hey: worst case scenario, we get to go camping! It's all good."

In the current economic climate, in which we hear of layoffs, business closings, foreclosures, and other distressing news, I would wish that freedom from fear for everyone facing it, so that they also might avoid the reptilian state and stay in the loose, relaxed, curious, creative state that leads to recovery and new growth.

From my studies of truth, nihilism, and communication, I have learned that fear accounts for most miscommunication. People employ the passive voice, evasion, obfuscation, dissembling, spin, and deception because they're afraid of something. Often, what they fear is humiliation.

But let's think about that for a moment. Just as the worst case scenario with housing is that we get to go camping, the worst case scenario with humiliation is humility. Since when was that a bad thing? In my spiritual tradition, humility is a virtue that we actually work to develop. So, worst case scenario: a fast track to humility, a virtue I wanted anyway. There's nothing to fear. It's all good.

Another common fear is of death. As a Marine, I've been trained to risk my life for others, to look death squarely in the face and march directly into it. My spiritual tradition also encourages the remembrance of death, to see it not as an ending, but as a transition to something better, to hold life gently in an open hand instead of clutching it tightly with a clenched fist, to live in a state of blessed detachment, grateful for whatever passes through our hands, whether it's a little or a lot.

So I can honestly say I'm not afraid of homelessness, humiliation, or death, and this fearlessness has actually been a problem for me, because it has resulted in insensitivity to people who are afraid. Lately I've been learning to become more sensitive, compassionate, and understanding.

At any rate, my encouragement to you would be the same as FDR's in his 1932 inaugural address: the only thing we have to fear is fear itself, for it makes us behave like reptiles - if we let it. Free from fear, we can behave like the creative human beings we are, and devise solutions. Toward that end, I remain at your service.

At the beginning of this report, I promised to offer my own view of whether things will get better or worse. My view is that it depends on whether the majority chooses fear or courage. If we choose fear, we'll see a continuing exodus of capital from debt and equity markets into precious metals and inverse instruments, and an increase in otherwise reptilian behavior like isolation, sales of guns and ammunition, hoarding, and a retardation of creativity. If we choose courage, we'll see an economic and cultural renaissance.   This letter is one man's humble attempt to en-courage. May it be a tipping point. I hope I have encouraged you.

Kindest regards,